


AR38



DOMAN INDUSTRIES LIMITED

**ANNUAL
REPORT
1969**



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**DIRECTORS
AND
OFFICERS**

DOMAN INDUSTRIES LIMITED

(Incorporated under the Laws of British Columbia)

DIRECTORS

H. S. Doman, *President, Doman Industries, Duncan, B.C.*
Dennis C. Roberts, *Chartered Accountant, Victoria, B.C.*
Ian C. Danvers, *Director, Pemberton Securities, Vancouver, B.C.*
John C. Davie, *Barrister & Solicitor, Williams & Davie, Duncan, B.C.*
D. S. Doman, *Executive, Doman Industries, Victoria, B.C.*
Gordon B. Elworthy, *Vice-President, Island Tug & Barge, Victoria, B.C.*
Earle C. Westwood, *Executive, Nanaimo, B.C.*
J. R. Abercrombie, *C.A., Treasurer, Doman Industries, Duncan, B.C.*

OFFICERS

H. S. Doman, *President*
John C. Davie, *Secretary*
J. R. Abercrombie, *Treasurer*

**REGISTRAR &
TRANSFER AGENT**

Royal Trust Company, *Vancouver, B.C.*

BANKERS

The Royal Bank of Canada

SOLICITORS

Williams & Davie, *Duncan, B.C.*

AUDITORS

Thorne, Gunn, Helliwell & Christenson, *Vancouver, B.C.*

DOMAN INDUSTRIES LIMITED

PRESIDENT'S REPORT TO THE SHAREHOLDERS

The Year In Review

In the year ended October 31, 1969, your Company realized substantial gains in many areas. Sales reached \$14,341,000, which represents a 37% increase over the preceding year. Earnings before income taxes and the interest of minority shareholders in the profits totalled \$1,969,000 up 149% from the preceding year. Net earnings available for the common shareholders after allowing for all charges, including dividends on the preferred shares amounted to \$686,000 up 156% over the 1968 year, and on an earnings per common share basis amounted to 60 cents compared with 25 cents in 1968. (1968 earnings per share are restated to reflect the July 1969 - 3 for 1 common stock split.) These financial highlights and other statistics which are of interest are shown in graph form on the following pages.

In commenting on the operating results for the year ended October 31, 1969, it is necessary to give some background as to the general business conditions which prevailed in the period, and which had a particular effect on the demand for lumber on the U.S. Eastern seaboard, which is our main export market place. Throughout the year we experienced wide swings in business activity and it was necessary to move quickly to take advantage of changing conditions. As the first quarter which ended January 31, 1969 closed and the difficult winter weather conditions were behind us, we entered a highly successful second quarter characterized by a buoyant lumber market with demand outstripping supply, and prices rising quickly. This came to an end approximately four months later when the tight money policy took effect in the U.S., and housing starts slowed down. When the resulting fall off in the demand for lumber occurred, your Company was in a strong cash position with log and lumber inventories at minimum levels.

For the third and fourth quarters up to our year ended October 31, 1969 we have relied upon a combination of productivity and diversification to meet budgeted profit levels. We have been able to maintain a brisk level of activity in our domestic marketing of lumber and building supplies, and a substantial contribution to con-

solidated profits has come from our Transportation, Logging and Concrete Divisions.

Major Expenditures

Our policy is to provide each division with the best plant and equipment available, replacing old equipment as soon as it becomes uneconomic. Good plant and equipment is vital if a high level of productivity is to be maintained. During the year we purchased new plant and equipment totalling \$1,289,000, and also acquired additional equipment when we purchased the shares of our new logging subsidiary, O.B. Logging Co. Ltd. These acquisitions were paid for out of cash flow from operations, and out of the proceeds from an issue of first mortgage bonds. Some short term indebtedness was paid off, and working capital increased to \$1,525,000 at the year end.

The Outlook

In the short run business is faced with the existence of a tight money situation, a period of tough labour bargaining and costs which will spiral if they are not controlled. While these problems must not be underestimated, they are by no means insurmountable. In accordance with our policy of emphasizing information systems, budgeting and planning, we are entering this new year on a closely controlled basis. All indications are that each division will continue to generate a steady profit. Our ability to sell lumber in the domestic market through the Company's five Building Supply outlets continues to be of great assistance to the lumber manufacturing division.

We now see the demand firming in the main export lumber markets. As the tight money situation in the U.S. gradually eases, the pent up demand for housing will accelerate this firming of the markets, and with excess capacity in both our sawmills and lumber remanufacturing plant, we will be in a position to benefit directly. This stabilizing process is inevitable with the unknowns being how long it will take, and with what degree of skill the U.S. Government will

bring inflation under control. We feel the steps taken to date to control inflation have been good in that some results were achieved and the economy was kept moving.

A Special Note

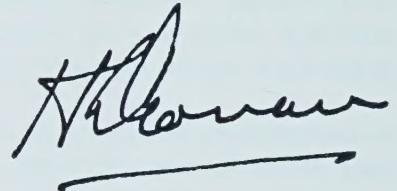
This report would not be complete without recognizing the real contribution which was made by our employees during the year. Their continuing efforts and loyalty have made the improved operating results possible. In 1969 we were pleased to welcome Mr. Earle C. Westwood of Nanaimo, B.C. to the Company's Board of Directors. Until recently Mr. Westwood was Agent General of British Columbia, for the United Kingdom and Europe, an appointment

held since 1964. Between 1956 and 1963 he held the portfolios of Minister of Industrial Development, Trade and Commerce, Minister of Commercial Transport and Minister of Recreation and Conservation with the British Columbia Government. He brings to the Company a wealth of experience and a valuable business background.

Conclusion

I am pleased to be able to conclude this annual message by stating that your Company is currently operating at satisfactory profit levels, no serious problems are foreseen in any of the divisions and that the long term outlook is promising.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'H. S. Doman', with a horizontal line underneath it.

H. S. Doman,
President & Chairman of the Board.

February 20, 1970
Duncan, B.C.

YEAR

1965 \$ 5,981,820

ANNUAL SALES VOLUME

1966 \$ 7,011,818

1967 \$ 8,362,126

1968 \$10,486,069

1969 **\$14,341,367**

1965 \$236,671

ANNUAL NET EARNINGS

1966 \$190,145

1967 \$158,329

1968 \$331,096

1969 **\$740,993**

1965 \$ 503,446

**ANNUAL CASH FLOW
FROM OPERATIONS**

1966 \$ 530,797

1967 \$ 428,981

1968 \$1,001,781

1969 **\$1,593,999**

1965 \$ 561,303

**WORKING CAPITAL
AT FISCAL YEAR END**

1966 \$ 238,505

1967 \$ 346,791

1968 \$1,070,567

1969 **\$1,525,095**

1965 \$3,868,282

**TOTAL ASSETS
AT FISCAL YEAR END**

1966 \$4,822,124

1967 \$5,994,696

1968 \$6,928,641

1969 **\$9,519,345**

FINANCIAL HIGHLIGHTS

	1969	1968	1967	1966	1965
Sales	\$14,341,367	\$10,486,069	\$8,362,126	\$7,011,818	\$5,981,820
Earnings Before					
Income Taxes	1,817,993	735,057	314,729	374,560	438,169
Less Income Taxes	1,077,000	403,961	156,400	184,415	201,498
Net Earnings	740,993	331,096	158,329	190,145	236,671
Less Preferred Dividends	55,199	63,050	56,550	37,050	27,788
Net Earnings Available for					
Common Shares	685,794	268,046	101,779	153,095	208,883
Earnings Per Common Share ..	.60	.25	.10	.14	.20
<i>(1968 and prior restated for 1969 - 3 for 1 stock split)</i>					
Current Assets	\$ 4,587,142	\$ 3,588,436	\$2,802,367	\$2,571,165	\$1,985,534
Current Liabilities	3,062,047	2,517,869	2,455,576	2,332,660	1,424,231
Working Capital	1,525,095	1,070,567	346,791	238,505	561,303
Fixed Assets — Net	4,487,724	2,861,629	2,728,026	1,986,637	1,582,983
Other Assets	444,479	494,480	461,208	264,347	299,765
Long-Term Indebtedness	2,456,518	1,490,974	1,123,212	544,446	636,333
Deferred Income Taxes	601,761	444,761	244,700	235,700	182,700
Preferred Shares	727,360	970,000	970,000	570,000	570,000
Common Shareholders' Equity	2,469,088	1,469,254	1,201,208	1,139,318	1,055,018
Interest of Minority					
Shareholders	202,571	51,687	(3,095)	25	—

FIVE YEAR COMPARISON OF OPERATING RESULTS

	1969	1968	1967	1966	1965
Sales	\$14,341,367	\$10,486,069	\$8,362,126	\$7,011,818	\$5,981,820
Cash Flow from operations	1,593,999	1,001,781	428,981	530,797	503,446
Net earnings (excluding profit					
on sale of fixed assets)	727,227	331,096	158,042	183,979	149,915
Profit on sale of fixed assets	13,766	—	287	6,166	86,756
Preferred dividends	55,199	63,050	56,550	37,050	27,788

FIVE YEAR COMPARISON OF FINANCIAL POSITION

	1969	1968	1967	1966	1965
Fixed Assets (Net)	\$ 4,487,724	\$ 2,861,629	\$2,728,026	\$1,986,637	\$1,582,983
Long term debt (net					
after current portion)	2,456,518	1,490,974	1,123,212	544,446	636,333
Working Capital	1,525,095	1,070,567	346,791	238,505	561,303
Shareholders' Equity	3,196,448	2,439,254	2,171,208	1,709,318	1,625,018
Deferred Income Taxes (Fully					
provided for in the accounts)	601,761	444,761	244,700	235,700	182,700

DOMAN INDUSTRIES LIMITED

Consolidated Statement of Earnings and Retained Earnings

Year Ended October 31, 1969

(with comparative figures for 1968)

	1969	1968
Sales of products, merchandise and services	\$14,341,367	\$10,486,069
Costs and expenses (notes 2, 3 and 4)		
Cost of sales, selling and administration expense	11,681,995	9,149,114
Depreciation	358,226	285,243
Depletion of timber and amortization of roads	86,374	89,932
Amortization of deferred preproduction expenses	41,675	34,729
Interest on long-term debt (1969—including \$18,566 financing costs)	204,220	137,212
	12,372,490	9,696,230
<i>Earnings before income taxes and minority interest</i>	1,968,877	789,839
Income taxes (note 5)		
Current	920,000	203,900
Deferred	157,000	200,061
	1,077,000	403,961
<i>Earnings before minority interest</i>	891,877	385,878
Interest of minority shareholders in earnings of subsidiary	150,884	54,782
NET EARNINGS FOR YEAR	740,993	331,096
Retained earnings at beginning of year	1,183,004	914,958
	1,923,997	1,246,054
Dividends on preferred shares	55,199	63,050
RETAINED EARNINGS AT END OF YEAR	\$ 1,868,798	\$ 1,183,004

DOMAN INDUSTRIES LIMITED

(Incorporated under the laws of the Province of British Columbia)

Consolidated Balance Sheet at October 31, 1969

(with comparative figures at October 31, 1968) (note 9)

ASSETS	1969	1968
<i>Current Assets</i>		
Cash and term deposits, net of bank advances	\$ 807,711	—
Accounts receivable	1,526,884	\$1,746,435
Inventories (note 6)	2,123,182	1,752,673
Prepaid expenses and other	129,365	73,424
	<u>4,587,142</u>	<u>3,572,532</u>
 <i>Investments and Receivables Other Than Current</i>	 <u>96,293</u>	 <u>55,773</u>
 <i>Fixed Assets, at cost (note 3)</i>		
Buildings, machinery and equipment	4,888,871	3,541,459
Less accumulated depreciation	1,511,145	982,912
	<u>3,377,726</u>	<u>2,558,547</u>
Land	212,277	209,877
Timber holdings and logging roads, less amounts written off \$607,076 (1968 - \$266,575)	897,721	93,205
	<u>4,487,724</u>	<u>2,861,629</u>
 <i>Intangibles and Deferred Charges</i>		
Deferred charges, less amortization (note 4)	159,840	250,361
Excess of cost over book values on acquisition of shares in subsidiaries, identified mainly with freight hauling rights	188,346	188,346
	<u>348,186</u>	<u>438,707</u>
	 <u>\$9,519,345</u>	 <u>\$6,928,641</u>

Approved by the Board,
H. S. Doman, Director
J. C. Davie, Director

LIABILITIES	1969	1968
<i>Current Liabilities</i>		
Bank advances, net, secured	—	\$1,150,207
Accounts payable and accrued liabilities	\$1,637,700	960,603
Income taxes payable	914,664	124,326
Principal instalments due within one year on long-term debt	509,683	266,829
	<u>3,062,047</u>	<u>2,501,965</u>
<i>Long-Term Debt</i> , less principal instalments included in current liabilities (note 7)	2,456,518	1,490,974
<i>Deferred Income Taxes</i> (note 5)	601,761	444,761
<i>Interest of Minority Shareholders in Subsidiary Company</i>	202,571	51,687
SHAREHOLDERS' EQUITY		
<i>Capital Stock</i> (note 8)		
Authorized		
92,736 6½ % cumulative redeemable convertible preferred shares, par value \$10 (1968 - 117,000 shares)		
3,097,056 common shares without par value (1968 - 1,000,000 shares)		
Issued		
72,736 preferred shares (1968 - 97,000 shares)	727,360	970,000
1,210,656 common shares (1968 - 357,000 shares)	600,290	286,250
	<u>1,327,650</u>	<u>1,256,250</u>
<i>Retained Earnings</i>	1,868,798	1,183,004
	<u>3,196,448</u>	<u>2,439,254</u>
	<u>\$9,519,345</u>	<u>\$6,928,641</u>

Auditors' Report To the Shareholders of Doman Industries Limited

We have examined the consolidated balance sheet of Doman Industries Limited and subsidiary companies at October 31, 1969 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies at October 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

December 19, 1969
Vancouver, B.C.

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

DOMAN INDUSTRIES LIMITED

Consolidated Statement of Source and Application of Funds

Year Ended October 31, 1969
(with comparative figures for 1968) (note 9)

	1969	1968
<i>Source of Funds</i>		
Operations		
Net earnings for year	\$ 740,993	\$ 331,096
Charges against earnings not representing a current outlay of funds		
Depreciation and depletion	444,600	375,175
Deferred income taxes	157,000	200,061
Amortization of deferred charges	100,522	40,667
Interest of minority shareholders	150,884	54,782
Total funds from operations	1,593,999	1,001,781
Issue of securities		
Common shares	71,400	—
First Mortgage Bonds	1,385,000	300,000
Debentures	—	111,100
	1,456,400	411,100
Sale of fixed assets	112,948	862
	3,163,347	1,413,743
<i>Application of funds</i>		
Additions to fixed assets	1,289,193	509,640
Investment in O.B. Logging Co. Ltd., including working capital deficiency at acquisition	831,531	—
First Mortgage Bonds—amounts repaid and currently maturing	283,500	52,500
Net reduction (increase) in other long-term debt	218,322	(9,162)
Net increase (reduction) in investments and receivables other than current	31,074	(13,335)
Dividends paid on preferred shares	55,199	63,050
Deferred charges	—	87,274
	2,708,819	689,967
INCREASE IN WORKING CAPITAL	454,528	723,776
WORKING CAPITAL AT BEGINNING OF YEAR	1,070,567	346,791
WORKING CAPITAL AT END OF YEAR	\$1,525,095	\$1,070,567

Notes to Consolidated Financial Statements

Year Ended October 31, 1969

1. **BASIS OF CONSOLIDATION**—The consolidated financial statements include the accounts of the subsidiary companies, all of which are wholly-owned except Ladysmith Forest Products Limited, 75% owned.

The excess of cost over book value of the assets of O.B. Logging Co. Ltd., attributed to timber values, is reflected as such in the balance sheet. Operations of that company are included from January 8, 1969, the date of acquisition; and those of Doman Investments Limited from May 13, 1969, the date of incorporation.

2. **STATUTORY INFORMATION**—Included in or netted against cost of sales, selling and administration expense are the following:

- (a) Directors' remuneration, including fees to directors and full remuneration of officers and employees who are also directors—\$76,899 (1968—\$85,975).
- (b) Gain on sale of fixed assets—\$13,766 (1968—nil).
- (c) Income from investments—\$2,940 (1968—nil).

3. **FIXED ASSETS AND DEPRECIATION**—Depreciation is recorded on a straight-line basis at rates based on the estimated useful lives of fixed assets. These estimated useful lives range between five to ten years for automotive equipment, ten to fifteen years for other equipment and twenty years for buildings. Costs of timber holdings and logging roads are written off as timber in the area is removed.

4. **DEFERRED CHARGES**—These consist of preproduction expenses of the Ladysmith sawmill (\$131,970 being amortized by regular charges to income over five years starting January, 1968) and deferred finance fees (\$27,870 being amortized as interest over the life of the debt).

5. **INCOME TAXES**—The companies have followed the practice of charging earnings with both the income taxes currently payable and the amounts deferred through claiming capital cost allowances in excess of the depreciation recorded at appropriate straight-line rates in the accounts. The accumulated amount of these deferments is recorded in the balance sheet as "Deferred Income Taxes".

6. INVENTORIES

	1969	1968
Logs	\$ 707,582	\$ 664,945
Lumber	1,036,122	625,630
Merchandise	292,293	387,907
Supplies	87,185	74,191
	<u>\$2,123,182</u>	<u>\$1,752,673</u>

Logs and supplies are valued at the lower of cost and replacement cost; lumber and merchandise are valued at the lower of cost and net realizable value.

7. LONG-TERM DEBT

	Amount October 31, 1969	Principal Instalments due within one year
First Mortgage Bond, securing:		
9¼ % Loan payable in 31 quarterly instalments of \$17,500 plus interest	\$ 542,500	\$ 70,000
9½ % Loan payable in 33 quarterly instalments of \$7,500 plus interest	247,500	30,000
10¾ % Loan payable in 40 quarterly instalments of \$23,375 plus interest	935,000	93,500
11% Loan payable in 20 quarterly instalments of \$22,500 plus interest	450,000	90,000
	<u>2,175,000</u>	<u>283,500</u>
7% Debentures of Ladysmith Forest Products Limited, held by its shareholders, payable from 1970 to 1974	361,100	46,956
Equipment contracts at various rates of interest, payable monthly	241,937	136,549
6% Loans from shareholders	73,206	—
Other agreements payable, secured	114,958	42,678
	<u>\$2,966,201</u>	<u>\$509,683</u>

8. **CAPITAL STOCK**—Preferred shares are redeemable at \$10.65 per share unless converted (on the basis of four (new) common shares for each preferred share) within the thirty day period of notice.

Changes in the company's capital stock during the year were as follows:

- (a) Authorized and issued common shares were subdivided three for one in July, 1969,
- (b) 24,264 issued preferred shares were converted at their par value of \$242,640 into 97,056 (new) Common shares without par value,
- (c) 42,000 (new) common shares were issued for \$70,000 cash under stock options, including 18,000 shares for which options were granted during the year, and
- (d) 600 (new) common shares were issued for \$1,400 cash on exercise of purchase warrants.

During the year options were granted covering 31,500 (new) common shares. 18,000 of these shares, optioned to a lender, were taken up at \$1.67 per share. The options on the remaining 13,500 shares, granted to directors, are exercisable at \$3.67 per share as to 2,100 shares per year for five years (this right is cumulative) and as to 3,000 shares at \$6.15 per share until July 11, 1974.

In addition to the 13,500 unissued (new) common shares reserved for these options, 119,400 (new) common shares are reserved for stock purchase warrants issued in 1967, entitling the bearers until December 31, 1976 to purchase these common shares for \$2.77 per share. A further 61,500 (new) common shares are reserved for stock options to key employees, but these options have not been issued.

9. **RESTATEMENT**—Certain minor reclassifications of 1968 amounts have been made to facilitate comparisons with the current year.

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DOMAN INDUSTRIES LIMITED

**SEMI
ANNUAL
REPORT
1969**

PRESIDENT'S MESSAGE TO THE SHAREHOLDERS

The operating results of your Company for the six months ended April 30, 1969 show increased sales and profits over the corresponding period in the previous year. The financial information detailed below also reflects a particularly successful 1969 second quarter.

This Year's Operating Results for the Six Months ended April 30, 1969.

	First Quarter Ended Jan. 31, 1969	Second Quarter Ended April 30, 1969	Total for the Six Months Ended April 30, 1969
	\$000 (thousands of dollars)	\$000 (thousands of dollars)	\$000 (thousands of dollars)
Sales	2,354	4,326	6,680
Deduct			
Production costs	1,988	3,307	5,295
Depreciation, depletion and amortization	109	105	214
Long term debt interest	36	49	85
Earnings before taxes and minority interest	221	865	1,086
Deduct			
Income taxes ..	138	466	604
Interest of minority shareholders in profits of subsidiary company	28	70	98
Net Earnings	55	329	384
Less Preferred Dividends	16	14	30
Net Earnings Available for Common Shares	39	315	354
Common shares outstanding	364,000 shs.	387,079 shs.	387,079 shs.
Earnings per common share	11c	80c	91c

Last Year's Operating Results for the Six Months Ended April 30, 1968.

	First Quarter Ended Jan. 31, 1968	Second Quarter Ended April 30, 1968	Total for the Six Months Ended April 30, 1968
	\$000 (thousands of dollars)	\$000 (thousands of dollars)	\$000 (thousands of dollars)
Sales	1,917	2,373	4,290
Deduct			
Production costs	1,775	2,129	3,904
Depreciation, depletion and amortization	84	101	185
Long term debt interest	29	35	64
Earnings before taxes and minority interest	29	108	137
Deduct			
Income taxes	4	48	52
Interest of minority shareholders in profits of subsidiary company	2	6	8
Net Earnings	23	54	77
Less Preferred Dividends	16	16	32
Net Earnings available for common shares	7	38	45
Common shares outstanding	357,000 shs.	357,000 shs.	357,000 shs.
Earnings per common share	2c	11c	13c

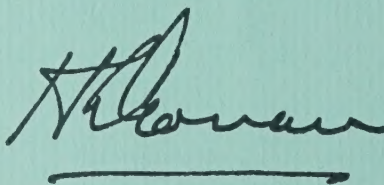
Numerous factors have contributed to increased profits, among these are; good lumber prices and additional sawmill production from the third shift operation which started in mid January, 1969; the full benefit of the new wholesale lumber and building supplies facilities opened at the end of 1968 in Surrey, B.C.; satisfactory volumes together with full utilization of new equipment in our ready mix concrete division; economies made possible in the main from vertical integration and increased volumes; and a major improvement in weather conditions in the second quarter.

The financial position is sound with working capital levels maintained in excess of one million dollars. Cash flow from operations for the six months ended April 30, 1969 totalled \$732,000 up 4 times over the same period in 1968.

Your Company has taken steps to launch a residential land bank program to complement the lumber and building supply divisions by providing assistance to our contractor customers. These consumers are buying greater volumes of lumber and building supplies each year, and it is our intention to further expand this domestic market. The Nanoose Forest Products Ltd. sawmill at Chemainus, B.C. is now in full operation and is providing specialized cutting for these customers.

We are now into the third quarter of 1969, and the outlook is encouraging. The first logs were received from O. B. Logging Co. Ltd. in May 1969, and that Company can be expected to contribute to consolidated earnings for the second half of the year.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "H. H. H. H.", written over a horizontal line.

President.

May 30, 1969.